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Germany

Agricultural Situation

Germany may reduce mineral oil tax waiver for biodiesel

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Report Highlights:

The German Ministry of Finance has presented the first mandatory report about the mineral tax exemption for biofuels and possible overcompensation. The report finds an overcompensation of 5 Euro cents per liter for pure biodiesel and of 10 Euro cents per liter for biodiesel blends and proposes to reduce the tax exemption. FAS Berlin expects that any possible changes to the current tax exemption will not go into effect until 2006.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Berlin [GM1]
[GM]

In Germany, pure biodiesel is traditionally exempt from the mineral oil tax in order to increase its competitiveness and usage. Production costs of biofuels are much higher than for mineral fuels. If biofuels were subject to the standard mineral oil tax, they would not be competitive. Since January 2004, the tax exemption was applied to all kinds of biofuels, including for the first time the biofuel component of biofuel blends. The exemption is granted until December 31, 2009, but must not result in overcompensation, in which case, the amount of the tax exemption has to be reduced.

In order to prevent overcompensation, the German Ministry of Finance with the help of the Ministry of Consumer Protection, Food, and Agriculture, the Ministry of Economics and Labor, and the Ministry of Environment has to report to the Bundestag (comparable to the U.S. House of Representatives) on an annual basis the development of prices and the market. The first of these reports covering the year 2004 has now been released.

The two major biofuels used in Germany are biodiesel and bioethanol. In 2004, bioethanol production had only amounted to 65,000 MT¹ (about 22 million gallons) and was mostly used for the production of ethyl-tertiary-butyl-ether (ETBE) rather than for direct blends with gasoline. Therefore the Ministries' report focuses on biodiesel.

The report finds that the tax exemption overcompensates production costs by 0.05 Euro per liter for pure biodiesel and by 0.10 Euro per liter for blends containing 5 Percent biodiesel. The report proposes to introduce a partial mineral oil tax for biodiesel. However, while the partial tax should be high enough to avoid overcompensation, it should not be too high in order not to discourage the use of biodiesel.

Introducing a partial mineral oil tax, or rather reducing the current tax waiver for biodiesel involves the German parliament. With the general elections possible in September 2005, it is unlikely that any change to the current tax exemption will go into effect before 2006.

In 2004, biodiesel consumption in Germany amounted to 1.05 million MT (about 1.2 billion gallons). 70 percent of this amount was used as pure biodiesel (40 percent in trucks of company fleets plus 30 percent in personal vehicles) and the remaining 30 percent were used in 5 percent biodiesel blends. This resulted in a total tax waiver for biodiesel of 559 million Euro (about U.S. \$ 694 million²) in Germany in 2004.

Related reports:

Report Number	Title	Date Released
GM4048	Biofuels in Germany – Prospects and limitations	11/22/2004
GM5025	EU Approves German State Aid for Bio Ethanol Plant	07/13/2005

¹ MT = metric ton

² Average exchange rate for 2004: 1 U.S. \$ = 0.8051 Euro